

INSTITUTIONAL INTERFACES AND ACTORS' BEHAVIOR IN TRANSITIONAL REAL ESTATE MARKETS OF ADDIS ABABA (ETHIOPIA)

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Abstract

The post cold war period which started by the collapse of communism in the former Soviet Republic and East European communist bloc in the early 1990s has heralded a transition from centrally planned economy to a free market economy. Real estate property and the role of institutions in development have become the main manifestations and components of this transition. However as compared to the transitional economies of East Europe, the case of the transition of former socialist oriented developing countries like Ethiopia seems to win less attention than it deserves. The economic transformation of these countries is not characterized by a transition from agriculture to industrialization but to an urban economy marked by informality dominated weak service sector activities fueled by high rural urban migration.

This research establishes niche by contrasting two views on the transition of such developing countries: one of De Soto's (1989, 2000) *liberal market consensus view* based on 'secure, reliable property rights' through the hidden revolution of informality and the role of the state being minimized, and the other - Khan's (2002, 2003) *social transformation or developmental state view* which revokes the 'stable property rights' motto and upholds the necessity of making massive interventions in reallocation of property rights by dynamic states in the interest of growth and creating dynamic capitalist classes. The main research question is how formal informal institutions interface and influence actors' behaviour in transitional real estate markets of Addis Ababa. The research analytical framework is developed taking elements of Williamson's (2000) level of institutional analysis, Institutional Analysis and Development framework (IAD) (Ostrom 2005) and *recurrent interaction patterns* of Pentland and Collaborators (1996). Two criteria of *property rights* and *transaction costs* from the New Institutional Economics paradigm were applied to a specific context. Insight from evolutionary economics (institutional path dependency) and behavioural economics had been also utilized. An eclectic combination of survey, multiple-cross case study and ethnographic research strategies had been employed. Five cases representing different sub markets in terms of size, type, location and the way actors were analysed. Analysis on path dependency show that despite the progress of knowledge and technology, the efficiency and flexible use of land and actual streams of rights enjoyed by right holders has not excelled what we achieved under the traditional and ingenious *rist* land tenure. Specifically the period after the 1975 revolution has been marked by institutional development in which ideology, political and doctrinal considerations rather than appreciation to culture, tradition, societal value and norms played greater role. Such institutional environment led to the widening rift between formal and informal institutions leading to institutional mono cropping and institutional limbo at times. It has been ascertained also that informality is not limited to the low income groups and involves wide spectrum of actors across all case studies including real estate developers. Based on insights from Lefebvre (1967) 'right to the city' and Porto Alegre's 'social urbanizers', neither De Soto's secured and stable property right through informal revolution nor Khan's social transformation by the capacity of dynamic states to make massive reallocation of pre-existing property rights in the interest of growth could guarantee

fairness in access to resources and pave the way for transition to capitalist economy. Rather findings show that managing access and use of resources needs to be decentralised at community level (e.g. community land trust, business block associations, cooperatives etc.) with upgradable tenure rights and an institutional arrangement which allows the city government to augment market and community initiatives. Such kind of institutional arrangement addresses new housing needs of communities and provides incentive for inhabitants of slum and informal settlements to maintain their living environment.

Regarding property right and transaction costs, currently a move from secured stable property rights to unstable and asymmetric property right has been observed with massive expropriation for land consolidation to promote growth of the city. Despite the legal backing some developers and petty providers negotiate a purchase deal with the owner to maintain their social capital. Real estate actors are observed to have their own dimension of transaction costs. Explanation based on mental accounting from the behavioural economics describes the inconsistencies people experience in judging the relative value of money, in which contrary to the principle of fungibility a dollar is not always interchangeable with another dollar. Actors from the low and middle income groups are governed by the conviction expressed in the saying: *"the poor doesn't need to save on his energy"* provided they anyhow succeed. Developers and petty providers express their feelings with a cautionary note of *"...not a big problem as such..."* Therefore the research concludes that transaction costs under a particular land tenure system need to be assessed in conjunction with the extent of property right the right holders enjoy and equity considerations. The research ascertained success factors for institutional reform which enable real estate markets to contribute for urban redevelopment: Firstly, the positive interaction among city/government and community/private actors while pursuing compatible goals which converge with broad societal goals. This is expressed in passive tolerance and latter incorporation in the case of the informal settlement, explicit facilitation and later partnership in the case of Merkato commercial center redevelopment case study. The second success factor is the attempt by the city government to create joint forums with user groups for participatory crafting of the rules of the game including urban plans. Institutions need to be also considered in their interdependent and interrelatedness to create synergy. The need to move towards new legality to resolve the conflict between formal and informal institutions has been also highlighted.

Key words: property right, transaction cost, real estate market, formal-informal institutional interface, governance structure, actors' behaviour